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CORPORATE FINANCE

Human Capital
UK M&A Market in Focus
October 2021

UK M&A Market Drivers

Drivers of Volumes

- Acquirers have been encouraged by the sector's demonstrable COVID-19 resilience, robust fundamentals and the important role that UK Human Capital companies are playing in facilitating post-pandemic strategies, through talent led solutions.
- M&A activity in the UK Human Capital sector has been fueled by an abundance of quality assets in the UK market and the international perception that UK equities are trading at a discount to other major markets.
- Speculation regarding possible reforms to Capital Gains Tax (CGT), which could be introduced in the upcoming Budget, is causing a surge in UK M&A activity, with shareholders motivated to execute transactions before potentially significant changes to the current regime take effect.

Drivers of Valuations

- EV/EBITDA valuations in the Gambit Human Capital Index have increased by 37% in the last 12 months, fueled by the strong trading performance of publicly listed recruitment firms such as Gattaca and Hays.
- Valuation metrics for Human Capital companies is highly responsive to signals of economic stability and with the UK economy in the midst of a 'return to normal', this is underpinning enhanced EV/EBITDA multiples.
- Valuations are also being buoyed by the unprecedented amount of dry powder accumulated by Private Equity firms during the Coronavirus pandemic and the increasingly encouraging sectoral outlook in the UK, with SIA forecasting that the UK's staffing market will grow by 13% in 2022.

15,000 ***Human Capital companies in the highly fragmented UK market***
(SIA, September 2021)

29.2m **Workers on payrolls in September 2021**
(ONS, October 2021)

13% **Forecast growth in the UK staffing market in 2022**
(SIA Analysis, May 2021)

$2.3tn ***Amount of dry powder held by Private Equity firms***
(City AM, October 2021)

Gambit's View

- With currently optimal CGT levels, now is the ideal time for shareholders to execute a transaction and ensure maximum value realisation.
- The latest UK hiring data indicates the strategic importance of Human Capital companies in supporting the UK's post-pandemic economic recovery, which will further improve sentiment and willingness to undertake a transaction from both strategic and financial acquirers.
- The surge in UK M&A activity is likely to be sustained in view of continuing strong labour market fundamentals and an increasingly positive growth outlook.

Gambit's View

- Buoyant valuation metrics indicate that there is a 'window of opportunity' for shareholders to execute succession strategies while transaction multiples remain at such high levels.
- With robust valuations and high levels of demand in the Human Capital sector, on the back of robust labour market fundamentals, valuations will continue to be buoyant in the short to medium term.
- Strong availability of debt to finance acquisitions, liquid corporate balance sheets and high levels of dry powder within the private equity market will support valuations further, providing optimum conditions for sellers to capitalise.

UK M&A Market Trends

Capital Gains Tax

- Tax rises, including Capital Gains Tax, are firmly on the domestic political agenda at present, which threatens to impact shareholder proceeds and value realisation.
- The potential changes to CGT are influencing near term shareholder objectives, creating an opportunity for buyers to capitalise on a rise in available assets and sellers to maximise their value and benefit from optimal tax rates.
- There has been an increased sense of urgency for shareholders to execute deals before any announcement of changes to the current CGT regime.
- The current window of opportunity to undergo transactions, in a more favorable CGT environment, has been a key driver in stimulating Human Capital M&A activity in 2021 and this is expected to continue.

Focus

- Numerous sub-sectors within the Human Capital market such as IT, Engineering and Education have enjoyed particularly high levels of appetite and recruitment firms specialising in these sub-sectors will attract increasing levels of appetite from acquirers.
- Recruiters with a competency in servicing in-demand sub-sectors have intensified their level of coverage within these areas, becoming further entrenched within them by building respective market shares through consolidation initiatives.
- Larger Human Capital companies are continuing to review their existing business models to meet the future demand of high-growth sub-sectors, increasing acquirer appetite for companies with a defined value proposition, such as technology enabled solutions.

Capital Availability

- Strategic buyers in the Human Capital market are continuing to build positions for takeovers of undervalued companies by engaging with the debt markets to secure flexible acquisition financing facilities.
- Interest rates are at near all-time lows, enabling Human Capital firms to secure discounted and flexible financing solutions to support strategic and corporate development activity, facilitating buoyant M&A activity in Human Capital markets.
- The rise in inflation post-pandemic could lead to a Bank of England increase in interest rates over the next 12 months. Therefore, a sense of urgency has been created to execute debt funded transactions before rates rise and the cost of borrowing becomes more expensive.

Technology

- Human Capital firms are evolving, developing, and adding value to their service offerings by operating consolidation strategies based around technological growth, enhancing M&A activity in the medium term.
- As Human Capital firms have sought to broaden their technological capabilities, a convergence in the portfolios of staffing firms, talent platforms, and online services is evident, which is enhancing M&A deal volumes.
- Many factors, which will continue beyond the pandemic, such as remote working and demand for software enabled solutions, have fueled Human Capital companies' requirements for technology enabled solutions.
- SIA anticipates that a significant level of M&A activity will be generated by the recruitment platform ecosystem in the short to medium term.

Thoughts from Gambit

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"The UK Human Capital sector has responded well to a multitude of challenges presented over the last 12 months. M&A market activity continues to be underpinned by pent-up demand, low borrowing costs, and liquidity in capital markets, offering significant opportunities to supplement organic growth"

Simon Marsden
Director, Human Capital

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"Current valuation metrics and the prevailing capital gains tax framework, presents an attractive opportunity for sellers to realise maximum value from their shareholding. With deal volumes and values rebounding, sellers face optimum conditions to engage with the M&A market."

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Gambit Corporate Finance

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice in the Human Capital sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

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Corporate Finance International

Gambit is the exclusive UK shareholder of CFI, a global partnership of middle-market investment banks and corporate finance advisory firms. With over 200 professionals located in 23 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services. CFI have advised on a significant number of staffing sector deals and is ranked number 24 in Europe and 32 globally by Thomson Reuters for transactions valued up to €200 million.

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